DOCUMENT RESUME

ED 295 585 IR 013 178

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TITLE Policy Development in Telecommunications.
INSTITUTION Telecommunications Policy Research Conference, Inc., Washington, DC.
PUB DATE 29 Sep 87
NOTE 16p.; Speech delivered at the Telecommunications Policy Research Conference (15th, Airlie, VA, September 27-30, 1987). For the conference program and additional papers, see IR 013 160-182.
PUB TYPE Viewpoints (120) -- Speeches/Conference Papers (150)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Business Communication; Competition; Federal Courts; *Federal Government; Federal Regulation; *Industry; *Information Services; *Public Policy; *Telecommunications
IDENTIFIERS *Information Policy

ABSTRACT

This statement by Alfred C. Sikes, Assistant Secretary for Communications and Information, National Telecommunications and Information Administration (NTIA), Department of Commerce, discusses the NTIA's role in insuring information access for American business, and its role in developing public information policy, especially in light of the Bell Telephone divestiture. (EW)

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NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

U.S. DEPARTMENT OF COMMERCE

BEFORE THE

FIFTEENTH

ANNUAL TELECOMMUNICATIONS POLICY

RESEARCH CONFERENCE

AIRLIE HOUSE

AIRLIE, VIRGINIA

TUESDAY, SEPTEMBER 29, 1987

IR013178

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TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

Foreword

This evening, I'd like to talk with you about NTIA's information policy responsibilities, and focus on three general topics or points --

- First, the overall public interest;

- Second, the critical importance of information services to U.S. economic development; and,

- Third, what the likely effect of Judge Greene's decision may be, on the public interest and economic development.

A Few Policy Sidelights

Let me start with a few comments on how we got into the whole "information policy" business.

Ten years ago, the White House reorganized and moved the old Office of Telecommunications Policy over to the Commerce Department. They changed the agency's name, and stuck "information" in the title.

Now, I'm not sure anyone back then had any firm idea what "information policy" actually involved. I expect many thought it was limited to data security, privacy, or the like.

I know that, for me, the extra four-syllable word they added makes my own official title even more awkward -- and almost impossible to fit on a business card.

But now, as computers talk to each other over thousands of miles, and the telephone system is itself becoming the world's largest computer, "information policy" obviously has taken on a fuller meaning.

Now, my own personal introduction to information policymaking has been interesting. I came out of the broadcasting side of the communications business, so I had picked up some jargon there.

But then I came to NTIA, and had to try and make it through these sessions where my staff were casually tossing around new terms like "pooling," or "carrier common line charges," or the shift from "SPF" to "SLU" -- or even the effects of "freezing SLU."

That proved to be the easy part of the transition --learning what say "SLC" meant. But then, in came more people to tell me about "value-added carriers," and "packet switching," plus the "T-1 interface," even something called "protocol conversion" -- I initially thought that maybe "protocol conversion" was something to do with the Department of State.

Jargon was only part of my introduction to this lore. I also learned that having "information" in your title made you fair game for virtually every telephone switchboard operator or mail room in the Government. Anyone contacting the Government with a question about anything seems to be shunted off to us. Maybe it's because I'm a bit of a Washington newcomer, but I'm still sometimes amazed at the inquiries we get.

Recently, for instance, we've had a fellow in Oklahoma asking for a list of all the rules if he starts exporting cattle embryos. Then we get prisoners writing in for information on parole standards, or West Virginia contractors with questions about building codes. And there was a Pittsburgh woman who sent us a hand-drawn map of some new stars she'd seen. She wanted to know if she'd discovered a new constellation.

Incidentally, we have a firm rule that anyone bothering to ask, deserves some kind of answer. So if anyone here's interested in constellations or cattle embryos, let us know.

The Public Interest Aspect

But now let me turn briefly to the first aspect of information policy that I mentioned, the public interest.

One important thing about information services, particularly those that might be targeted at the residential telephone subscriber, is that they represent a tangible result of

all the high-tech developments going on in this industry. In a very broad sense, too, adding new services that can be delivered by telephone would also contribute to the overall quality of our national life.

Certain kinds of health-care services, for instance, could be facilitated by telecommunications. That's one specific and highly constructive potential new service. And, there are other services that could be important economically. With a bit more precise measuring of electricity use, for example, "load balancing" can be improved. So as one REA study found, you can trim back a little on new generating capacity and considerable money. That sort of economizing is increasingly possible using communications.

Another way of looking at this is that, if you can't fully use communications facilities there may be substantial costs imposed -- and costs that go beyond the boundaries of the telephone business. Since we are now literally pioneers in information services, it's hard to estimate the opportunity costs we may incur, if these services are forbidden or hobbled domestically. But they're probably substantial. And if phone companies can't offer such services to the residential customer on a profitable basis, for instance, will they ever install broadband facilities to the home? It is after all, those broadband facilities which will make real entrepreneurship likely.

We're lucky that, as the talk of information services becomes more tangible, more political figures are beginning to pay attention. The FCC, for example, now talks about "network mining," if ONA is done right. And, Congressmen Markey and Ritter are anxious to explore what Congress can do to speed up the general distribution of these new services. Federal District Court Judges are even beginning to write about the potential value of an American equivalent to France's "Minitel."

These new services, and their associated public interest benefits, are important both intrinsically and because they may help maintain an overall consensus in favor of marketplace solutions. The public and their representatives do not want to be told good things will happen from deregulation -- they want good things to happen.

Over the past decade, there's been a general consensus -- shared by just about everyone in Washington except, apparently, Judge Greene -- that we should be relying to the maximum extent possible on competition in communications. That's especially important in any high-tech field, since competition will accelerate the introduction of new services. It also will spur industries to be more efficient and responsive, and that's critical in a global marketplace.

Unfortunately, Judge Greene doesn't seem to have sufficient confidence in the marketplace, the FCC, or Congress. But I

expect the Government will continue to see what we can do to bring him around.

We really don't need a return to the old days of Government cartel management. Rather, we ought to continue the sort of open-entry, procompetitive policies that have worked well in the recent past. And, I believe that the FCC can forestall any significantly anticompetitive actions or developments and, to the extent they become lax, Congress knows how to get their attention.

The Economic Development Bonus

Let me turn, now, to what's more of a traditional, Commerce Department concern -- namely information services as they relate to trade, and overall U.S. economic development.

What you're seeing throughout American companies and industry today is three related things.

First, you have a lot of businesses, especially those that have large retail operations, making more and more use of information services. You have increasingly elaborate communications and computer installations at the gas stations, grocery stores, department stores, and banks, for example.

Just about every major retailer today has some kind of communicating point-of-sales terminal. You have 7-Eleven, Wal-

Mart, Safeway, and some other nationwide firms, for instance, installing "Very Small Aperture Earth Terminal" (VSAT) networks, and so forth.

Why's this happening? It's happening for basically three reasons.

The U.S. population and overall domestic economy, to begin with, isn't growing as fast as it once was. Demand for many products is relatively stable, so, if you're a major retailer, what you try to do to maintain profit growth is cut your operating costs. And, information services are one good way to that.

Second, you're seeing more use of -- and reliance upon -- information services by some of our major core industries, especially the ones that face strong foreign competition. They're doing that both to be more efficient and to make their products better and different. Product differentiation is important in highly competitive markets, and the services dimension is often the point of contrast.

The "smart network" that EDS is putting together for General Motors is a good example where a company is striving to accomplish both objectives. What they're doing is linking some 4400 GM design, manufacturing, and administrative facilities, plus some 26,000 sales outlets worldwide.

The idea is to align all the various stages of car production as closely as possible, and correlate that more closely with demand. But they also want to improve the ability of dealers to maintain and repair increasingly complicated vehicles.

The assumption is that this overall initiative will help keep GM competitive. And, the parallel assumption is that -- if GM doesn't take these steps -- it's going to have even greater problems, because we're dealing with an internationalized business and technology, and many of its competitors are already installing similar logistics systems, too.

And, third, you are seeing U.S. businesses making use of information services to come up with entirely new products that probably couldn't be produced -- at least on a cost-effective basis -- without high-capacity computers harnessed together through communications.

Some of the new jet engines, or planes, are an example. Experts say, for example, that GE couldn't have developed its CF- 6 engine, or Pratt & Whitney its own high bypass-ratio turbine alternative without such computer and communications technology. Developing state-of-the-art planes like the Boeing 767 on an economical basis would also have been basically imposssible without these high-tech tools.

Making sure that American business has access to the best computer and communications assets, again, is critical. People talk about how we're moving to a "post-industrial society," how services are the wave of the economic future.

That's true, but only in part. More than 25 percent of the overall services industry, and the highest value-added and thus highest paying part, is directly tied to our manufacturing sector. The strength and vitality of U.S. manufacturing thus is very important.

It's a symbiotic relation -- with both information service and manufacturing operations benefiting. And, it's important for the long-run future of the U.S. economy and, ultimately, the quality of life our economy sustains. We have to make sure that this kind of relationship is not only possible, but also encouraged.

Implications of Judge Greene's Ruling

The biggest immediate impact of Judge Greene's recent ruling on the information services that Bell companies can market will be on what ordinary people might or might not receive. There could be additional short to intermediate -- run effects on small business access to "smart networks" as well.

What Judge Greene seems to be saying is that the Bell companies can provide the hardware, the infrastructure needed --

for an American-style Minitel system, for instance. But then they can't have anything to do with the system's content. They can't offer an electronic "Yellow Pages," for example -- or most anything else that would get them into content.

Now, I don't know whether any workable distinction between the medium and the message is really possible in this context. That's what the FCC tried to do in its First Computer Inquiry. It's ironic that Judge Greene, who doesn't seem to have a very high opinion of FCC actions in this field, now appears to have decided he wants to conduct his own equivalent of a rulemaking proceeding.

I expect many of those 170 parties and intervenors who've already filed with the court will want to file additional comments in this latest judicial style regulatory procedure.

But let me just make a few observations. First, many of the information services I have talked about are probably only going to be offered as a supplement to familiar services like directory assistance, at least to begin with. That was the experience in France.

There's probably a significant latent demand. But it's hard to see phone companies assuming the risk of putting in expensive systems, if they don't have some guaranteed -- moneymaking or money-saving -- services they can run on them to begin with.

Prohibiting innovative new forms of directory assistance and other information services, of course, doesn't mean there will not be computerized phone directories -- it just means that the only people who might be allowed to look at the screen will be phone company workers. I find it a bit mind-boggling to consider the fact that, under Judge Greene's tentative rules, phone companies will be allowed to use computers to handle information, but they might have to use operators to tell you what the computer says.

What all this probably means is that the sort of interactive services you can now get overseas in France, Britain, West Germany, and also in Canada, just won't be offered here. But even more unsettling is that the most entrepreneurial economic culture in the world is going to be stifled.

Second, one of the additional problems raised by the court's commercially unrealistic approach is that it may derail some or all of the FCC's plans to implement "open network architecture."

Under the FCC's Third Computer Inquiry ruling, open network architecture is essentially a precondition to Bell company provision of information services. It's, in effect, the entry ticket. But why should they now rush out to buy tickets, when Judge Greene has made it fairly clear that he really doesn't want them playing in the game -- that, at most, he may be prepared to let them stand on the sidelines and watch.

Overall, it doesn't make a whole lot of sense to have the expert Federal agencies here -- NTIA, FCC, and, in some regards, Justice, too -- making the fundamental decision that phone companies should offer information services under appropriate safeguards. And, I should add that, in addition to the Executive branch, Congressmen Dingell, Swift, Tauke, and Lott, just to name some legislators, seem to want things changed, too. And, then, one of 525 Federal District Court Judges decides that the rest of the Government is just all wet.

That's exactly the wrong way to go about trying to make sure that new services are offered in a capital-intensive industry, where reasonably clear, predictable, and certain Government signals are necessary.

Conclusion

Back in 1972, when OTP started these annual telecommunications policy gatherings, the basic question on the table was whether to continue the old sole-source, monopoly system, or to allow competition.

One person who's gone through the experience of introducing competition into the telephone business recently remarked to me that the communications policymaker's life was a bit simpler back then. As he put it, "The pro-competition Sir Gallahads didn't have to have all the answers. It was usually sufficient to be 'anti-dragon.'"

Today, we've obviously got actual or potential competition in most of the major parts of the business, and as I said to begin with, the telephone network is turning into the world's largest computer. The competitive communications marketplace has also turned out a bit like what Winston Churchill said about democracy -- not perfect, but a whole lot better than the alternatives.

The most undesirable alternative is for one Government official to be deciding what should be offered, when, and by whom. And, this is precisely the kind of fluid environment in which Government often is at its worst. For particularly in a rapidly changing marketplace that centers on a dynamic technology, the private sector is most likely to make the right choices and decisions. Businessmen need to be able to act on marketplace signals without first engaging in a bureaucratic game of "mother may I?"

Communications and information policies are important, not only to these industries, with their U.S. revenues now estimated at around $340 billion a year. They are also important to our overall economic and social progress. My brother, for example, owns one of those small businesses and could well employ a "smart network" as he seeks to differentiate his offerings from the big discounter just down the road.

And, the policies we adopt have a significant human dimension as well. Such new services might well be important to the working mother who wants to stay in touch with her child during the day. Or, they might be important in letting the hospital or doctor maintain contact with a newly released patient.

In short, we need to make sure that public policy is public and not private policy. That we are not either intentionally or unintentionally protecting the market shares of big companies. We must also strive to see that regulatory policies are made, not by one judge, but by members of the executive and legislative branches after going through the familiar give and take of the political process. We cannot afford to paralyze the rapid distribution of both information policy and its benefits. The country can't afford the failure.